

Message Text

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ORIGIN XMB-07

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 OPIC-12 SP-03

CIEP-02 OMB-01 /081 R

66604

DRAFTED BY XMB:DBSMITH

APPROVED BY EB/OCA/REP:LBPOMEROY

EB/IFD/ODF:EMLINTON

EA/K:HNEWSOM

XMB:CWHOUSTON

XMB:WARREN W GLICK

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R 101416Z MAY 74

FM SECSTATE WASHDC

TO AMEMBASSY SEOUL

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E.O. 11652: N/A

TAGS: ETRD, KS

SUBJECT: TONG YANG CEMENT FINANCING

REF: SEOUL 2815

1. EXIMBANK HAS AT NO TIME INDICATED WILLINGNESS TO FINANCE THE TONG YANG TRANSPORTATION AND STORAGE. THIS WAS NOT PART OF OUR CONSIDERATION WHEN THE LOAN/GUARANTEE FOR THE EXPANSION WAS AUTHORIZED IN JUNE OF 1973. FIRST MENTION OF THE TRANSPORTATION AND STORAGE WAS IN TONG YANG'S LETTER TO EXIMBANK OF JANUARY 24, 1974. AT THE TIME THAT THE LOAN/GUARANTEE WAS AUTHORIZED TONG YANG'S RECORD SHOWED THREE CONTINUOUS YEARS OF LOSS 1970-1972 TOTALING DOLS 2.7 MILLION. THE DEBT EQUITY WAS 75/25, A LEVEL NOT UNCOMMON IN KOREA BUT CONSIDERED POOR BY EXIMBANK CRITERIA. THUS AT THE TIME, WE DEPENDED FOR REASONABLE ASSURANCE OF REPAYMENT ON THE GUARANTEE

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OF THE KOREA EXCHANGE BANK.

2. TONG YANG'S 1973 ANNUAL REPORT DOES SHOW EARNINGS OF DOLS 509,000 FOR THE YEAR. HOWEVER, THE DEBT EQUITY RATION HAS CONTINUED TO DETERIORATE AND NOW STANDS AT 77/23. THE PLANT EXPANSION CALLS FOR DOLS 25 MILLION MORE IN DEBT INCLUDING THE DOLS 20.7 MILLION FOR THE EXIMBANK FINANCING AND NOW THE TRANSPORTATION IS BASED ON FURTHER BORROWING. IT IS OUR OPINION THAT THE CURRENT SITUATION CALLS FOR ALL THE ADDITIONAL TRANSPORTATION NEEDS TO BE FINANCED BY MORE PAID-IN EQUITY. THE BANK HAS NOT PRESSED THIS POINT BUT HAS STATED TO TONG YANG IN CABLES SENT APRIL 16, 1974 AND APRIL 23, 1974, THAT WE WILL NOT STAND IN THE WAY OF OBTAINING THE TRANSPORTATION FINANCING (ON ACCEPTABLE TERMS) ELSEWHERE IF THEY OBTAIN NECESSARY APPROVALS OF THE KOREAN EXCHANGE BANK AND THE KOREA GOVERNMENT. IN DISCUSSING THIS WITH TONG YANG, YOU MAY USE THIS INFORMATION AS YOU SEE FIT. RUSH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANK LOANS, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE096964
Document Source: CORE
Document Unique ID: 00
Drafter: DBSMITH
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740115-0508
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740557/aaaabykz.tel
Line Count: 77
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN XMB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: SEOUL 2815
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 01 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 AUG 2002 by elyme>; APPROVED <11 FEB 2003 by GarlanWA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TONG YANG CEMENT FINANCING
TAGS: ETRD, KS, XMB, TONG YANG CEMENT COMPANY
To: SEOUL
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005